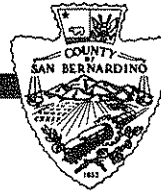


# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

**AUDITOR/CONTROLLER** • 222 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

**RECORDER • COUNTY CLERK** • 222 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

September 9, 2008

**LARRY WALKER**

Auditor/Controller-Recorder  
County Clerk

**ELIZABETH A. STARBUCK, CGFM**

Assistant Auditor/Controller-Recorder  
Assistant County Clerk

**PATRICK PETRE, DIRECTOR**  
**ARROWHEAD REGIONAL MEDICAL CENTER**  
400 North Pepper Avenue  
Colton, CA 92324-1819

## **SUBJECT: AUDIT OF ARROWHEAD REGIONAL MEDICAL CENTER'S CASH CONTROLS**

### **Introductory Remarks**

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Arrowhead Regional Medical Center (ARMC). Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

### **Background**

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

### **Objectives, Scope and Methodology**

Our overall objective was to determine whether cash handling controls practiced by the ARMC effectively safeguard cash. Specific audit objectives were to determine whether:

1. ARMC properly maintained and secured its change fund.
2. ARMC practiced adequate cashiering controls.
3. ARMC properly maintained and secured its petty cash fund.

We reviewed internal controls over cash for the period of January 1, 2008 through March 31, 2008. Our audit included surprise cash counts, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

### **Conclusion**

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the ARMC did not always effectively safeguard cash. We determined that:

1. ARMC did not appear to properly maintain and secure its change fund.
2. ARMC did not practice adequate cashiering controls.
3. ARMC did not appear to properly maintain and secure its petty cash fund.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to ARMC on 08/15/08 and discussed our observations with management on 08/21/08. The department's responses to our recommendations are included in this report.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1: Missing Petty Cash Fund**

County managers are responsible for safeguarding assets, providing reliable financial records and complying with applicable laws and regulations. By establishing appropriate internal controls, management is provided reasonable assurance that their objectives are being met in a supportive control environment. Currently, the Behavioral Health Department/Central Materials can not locate an authorized \$100.00 petty cash fund. Also, the patient accounts safe was missing \$68.00 of a \$70.00 pharmacy change fund.

**Recommendation:**

We recommend the department complete a "Request for Relief from Liability" memo and submit it to the Internal Audits Section of the Auditor/Controller-Recorders office per the instructions in Chapter 5 of the ICCM.

**Management's Response:**

The department manager for Central Materials has been informed that a portion of their overall petty cash change fund is for this purpose. The change fund has been accommodated using the proper Request for Relief from Liability. Also ARMC has developed procedures to prevent this same error from reoccurring.

**Auditor's Response:**

The Department's actions will correct the deficiencies noted in the finding.

**Finding 2: The Safe Combination is not Changed at Least Annually**

Changing the safe combination periodically will reduce the risk of an unauthorized individual acquiring knowledge of the combination. Currently, the Patient Accounts department does not periodically change the combination to the safe. The only time the combination is changed, is when an employee with knowledge of the combination terminates or transfers out of the department. Central Materials has not changed the safe combination in over a year including when the Department Manager changed. The departments were not aware the safe combination should be changed at least annually. By not changing the combination periodically, an unauthorized individual may gain knowledge of the combination.

**Recommendation:**

Per Chapter 3 of the ICCM, safe combinations must be changed when an employee who has knowledge of the combination terminates County employment, is transferred to another County department, or is assigned other duties. Even if there are no staffing changes, combinations must be changed annually. We recommend that management train staff on this policy and verify its implementation.

**Management's Response:**

A log is now maintained to show the date of every safe combination change and ensure it is done annually even in the event of no staffing changes.

**Auditor's Response:**

The Department's actions will correct the deficiencies noted in the finding.

### **Finding 3: Lack of Segregation of Duties**

No one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. Currently, transactions are received, recorded, and reconciled by the person with custody of the change fund for the Patient Accounts department and the Ear, Nose, and Throat department. Since the departments do not separate the duties of maintaining, recording and reconciling cash receipts, an employee can misappropriate cash and conceal it.

#### **Recommendation:**

We recommend that management segregate the cash handling and bookkeeping duties. For example, one employee should handle everything associated with custody of cash (collecting cash receipts and preparing deposits), another employee should handle accounting for the cash (recording) and another higher ranking employee should handle reconciling the cash and transactions.

#### **Management's Response:**

Reviewed and ensured that the new policies and procedures of ARMC do not violate segregation of duties as outlined by County Internal Cash Controls.

#### **Auditor's Response:**

The Department's actions will correct the deficiencies noted in the finding.

### **Finding 4: Lack of Monthly Reconciliation**

A critical step in properly maintaining a cash fund is periodic reconciliation. County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code should complete the fund reconciliation. Currently, several departments including: Patient Accounts (for idle change funds, i.e. Pharmacy), Clinical Social Work Department, Radiology, Arrowhead Café (vending machines), and Central Materials do not perform a reconciliation by a person with a higher ranking job code than the person with custody of the cash at least monthly. The departments were not aware the change funds should be reconciled monthly by a person with a higher-ranking job code than the custodian. Since the department does not complete monthly reconciliations, there is a risk of monies being lost or an employee misappropriating cash and concealing it.

#### **Recommendation:**

We recommend that departments reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code must complete the fund reconciliation.

**Management's Response:**

Effective immediately, internal surprise audits are going to be increased to monthly basis, and a record of these audits will be maintained, as well as verified by the Fund Custodian.

**Auditor's Response:**

The Department's actions will correct the deficiencies noted in the finding.

**Finding 5: Lack of Safeguarding Cash**

Assets should be recorded and access to and use of valuable assets should be controlled. A critical step in safeguarding assets is to record them at the time of acquisition. The Radiology Department does not secure the change funds away from the reception area overnight. The Surgery, Orthopedic, Clinical Social Work, Woman's Health, Pediatrics, Radiology, and Westside Clinic departments share cash drawers between two individuals. In addition, they do not document each transfer between cashiers or the receipt of the cash at the start and end of each day. Since the department does not effectively safeguard its cash funds, there is a risk of monies being lost or misappropriated. In addition, in the event of a loss, it would be difficult to determine the perpetrator.

**Recommendation:**

We recommend that each transfer of cash be documented with a count and a signature of the person receiving the cash. We also recommend that all cash be held overnight in a safe or a locked file cabinet located in a secure area away from the public, not left in a cash register overnight even if the register is locked.

**Management's Response:**

The change funds have been relocated to an area out of the reception area all together for safekeeping overnight. All cashiers and their supervisors have been instructed that they do not share change funds unless they count and verify between shifts. Additional drawers and change funds have been issued to accommodate each cashier of every clinic to eliminate the violation of cashiers sharing the same change fund.

**Auditor's Response:**

The Department's actions will correct the deficiencies noted in the finding.

AudRpt/ PATRICK PETRE  
Arrowhead Regional Medical Center  
September 9, 2008  
Page-6-

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By: \_\_\_\_\_  
Howard Ochi, CPA  
Chief Deputy Auditor  
Internal Audits Section

Quarterly copies to:

County Administrative Officer  
Board of Supervisors (5)  
Grand Jury (2)

Audit File (3)

Date Report Distributed: 9/9/08

LDW:HMO:DH:LL:mah